

Memorandum



Date: July 10, 2007

To: Honorable Chairman Bruno A. Barreiro
and Members, Board of County Commissioners

Agenda Item No. 12(B)6

From: George M. Bonilla
County Manager

Subject: Report on Homeownership Opportunities for Very Low, Low, and
Moderate Income Families Pilot Program

The following report is presented to the Board pursuant to Resolution R-160-07, which directs the County Manager to use the expertise of the Miami-Dade Housing Finance Agency (HFA) to 1) design the "Homeownership Opportunities for Very Low, Low, and Moderate Income Families Pilot Program," 2) identify the steps to be taken to select 100 families to participate in the program, and 3) recommend funding for the pilot program. The report also includes information on the existing "Homeownership Assistance Program" administered by the County.

The Resolution requires that the proposed pilot provide loan assistance, pre- and post-homeownership counseling, and an expedited closing process so that all loans can be closed within a 30 to 60 day period. Furthermore, the Resolution sets the following parameters:

- Subsidies are to be provided as 10-year forgivable loans in the amount of up to \$40,000 for studios and one-bedroom units, \$60,000 for two bedroom units, and up to \$80,000 for units with three or more bedrooms.
- To achieve equitable distribution of loan assistance, 30 percent of the total loans are to be made to very low income households; 30 percent to low income households; and 40 percent to moderate income households.
- In the event that there are insufficient households to allocate loans to be based upon the before-mentioned formula, then the number of loans to eligible households in the remaining income target ranges shall be increased.

Background on Existing "Homeownership Assistance Program"

HFA offers mortgage assistance through the Single Family Mortgage Bond Revenue ("Single Family Bond") Program; however, since January 2007, the Homeownership Assistance Program administered by the Miami-Dade Housing Agency (MDHA) was transferred to HFA. HFA now offers Miami-Dade County residents mortgage assistance funded by the federal HOME Program, State Housing Initiatives Partnership (SHIP) Program, and the local Documentary Stamp Surtax (Surtax) Program, collectively referred to as the "Homeownership Assistance Program."

HFA Homeownership Assistance Program guidelines include the following:

Mortgage Assistance

Very low-income households, 50 percent or less of area median income (AMI), outside an entitlement jurisdiction may receive mortgage assistance up to \$80,000; low-income households, 80 percent or less of AMI, can receive assistance up to \$70,000; moderate income households with incomes up to 100 percent of AMI can receive assistance up to \$60,000; and households with incomes between 101 percent and 140 percent of AMI can receive subsidies of up to \$50,000.

Interest Rates

Very low- and low-income borrowers receive interest rates between zero to three percent and pay only \$25 in interest per month for the first five years of the loan. During years six through ten, borrowers pay \$50 in principal and interest a month. The loan is fully amortized in years 11 through 40 (30 years in the case of SHIP loans).

Moderate income borrowers receive interest rates between four and six percent and pay only \$50 in interest per month for the first five years of the loan. During years six through ten, borrowers pay \$100 in principal and interest a month. The loan is fully amortized in years 11 through 40 (30 years in the case of SHIP loans).

Household Spending on Housing

In all cases, the total debt to income ratio, based on housing-related costs and other household debt cannot exceed 45 percent. In other words, a family or individual cannot spend more than 45 percent of their income on all housing-related costs.

Results of the "Homeownership Assistance Program"

During the first quarter of calendar year 2007, a total of 134 loans totaling \$7,722,542 in Surtax and SHIP funds were closed by HFA, in addition to those closed with limited HOME funds and under the Single Family Bond Program. Of these Surtax and SHIP loans:

- 18, or 13 percent of the total number of loans, were made to very low-income households with average loan amount of \$62,730;
- 77 loans, or 58 percent, were made to low-income households with average loan amount of \$59,751; and
- 39 loans, or 29 percent, were made to moderate-income households with loan amounts averaging \$51,091.

The HFA is closing loans within 30 to 60 days, assuming the home is ready for occupancy. Prospective borrowers are required to participate in pre-homeownership counseling and receive post-homeownership counseling when requested or deemed necessary.

Staff is considering whether some programmatic emphasis should be placed on foreclosure prevention for current very low-, low- and moderate-income borrowers at this time.

Recommendations to Increase Homeownership Opportunities for Families

HFA is currently operating a mortgage assistance program which is assisting households at all income levels up to 140 percent of the AMI. As stated above, 134 families closed on Surtax and SHIP loans in the first three months of this year alone. An additional 52 loans under the Single Family Bond Program closed during the first quarter of calendar year 2007, for a total of 186 loans closed in the three month period. An additional 80 Homeownership Assistance Program loans have closed since then.

At this time, creation of a new program is not recommended; however, staff did take into consideration the recommendations in Resolution R-160-07 and reviewed the County's outreach efforts, funding and income targeting, and current policy concerning loan terms and amounts (i.e. assistance based on bedroom size opposed to income category). The following is a summary of staff's review and recommendations in response to those set forth in Resolution R-160-07.

Selection of Participants – Program Outreach

Current homebuyers are being referred to the program through various channels. First, HFA has partnered with community lenders who initiate loans to very low-, low- and moderate-income households and arrange

directly for second or third mortgages through HFA's Homeownership Assistance Program and the Single Family Bond Program.

In addition, the County has partnered with affordable housing developers and property owners to market their units to the residents through the County's Housing Central, an on-line free listing service. Housing Central marketing is driving prospective homeowners to HFA for mortgage assistance. These marketing efforts are quite effective as HFA has experienced significant demand for homeownership assistance over the last several months.

Program Funding and Income Targets

The County is maximizing the four sources of funding that can be used toward mortgage assistance, HOME, SHIP, Surtax and Single Family Bond dollars.

As for income category targets, only very low- and low-income households may be provided mortgage assistance under the HOME Program. Under the recently Board approved Local Housing Assistance Plan (Resolution R-406-07) for the use of SHIP funds, approximately 30 percent of mortgage assistance funds are to be directed towards very low-income households, 55 percent towards low-income households, and the remaining 15 percent towards moderate income households at 120 percent of AMI or less.

With respect to Surtax, staff will target 30 percent of the Surtax-funded loans to very low-income households; 30 percent to low-income households; and 40 percent to moderate income households, in response to Resolution R-160-07. In the event that there are insufficient households to allocate loans to be based upon the before-mentioned formula, then the number of loans to eligible households in the remaining income target ranges will be increased.

Loan Terms


Resolution R-160-07 calls for a program that offers ten-year forgivable loans. As stated previously, borrowers are currently subject to very modest monthly loan payments for the first ten years of the loan. However, loans are not forgivable as it allows a revolving source of funding for the mortgage program. In the event that the home is sold, the loan can either be assumed by the buyer if income eligible for the Homeownership Assistance Program or must be repaid. At this time, staff recommends that this policy remain in place.

Mortgage Subsidy Amounts

Staff recommends that current mortgage assistance limits remain in place rather than make loans based on the bedroom size of a unit.

Resolution R-160-07 calls for subsidies to be provided in the amount of up to \$40,000 for studios and one-bedroom units, \$60,000 for two bedroom units, and up to \$80,000 for units with three or more bedrooms. This subsidy policy would limit mortgage assistance to moderate income households. For example, a one-bedroom unit priced at \$200,000 and financed with a second mortgage of \$40,000 would only be affordable to households above 100 percent of median income; a two-bedroom unit priced at \$240,000 and financed with a second mortgage of \$60,000 would be affordable only to households 92 percent of median income; and a modestly priced three bedroom purchased for \$280,000 with a second mortgage of \$80,000 would be affordable only to households at 90 percent of median income (see Attachment A).

Attachment


Cynthia W. Curry
Senior Advisor to the County Manager

EXAMPLE #1

Bedroom size: Studio or 1 bedroom
Maximum Subsidy: \$40,000.00

Purchase price:	\$200,000.00
3% Down pymt.	<u>6,000.00</u>
To be financed:	\$194,000.00
County subsidy:	40,000.00
First mortgage:	154,000.00

Payments:

\$154,000.00 @ 6% /30 yrs P&I	\$ 923.31
Real Estate Taxes	333.33
Insurance/Maintenance	<u>250.00</u>
First Mortgage pymts.	\$1,506.64 = 38% of household gross monthly income

Affordable to a family of 1 at 114.65% of median income
Affordable to a family of 2 at 100.38% of median income

EXAMPLE #2

Bedroom size: Two Bedroom
Maximum Subsidy: \$60,000.00

Purchase price:	\$240,000.00
3% Down pymt.	<u>7,200.00</u>
To be financed:	\$232,800.00
County subsidy:	60,000.00
First mortgage:	172,800.00

Payments:

\$172,800.00 @ 6% /30 yrs P&I	\$1,036.02
Real Estate Taxes	400.00
Insurance/Maintenance	<u>300.00</u>
First Mortgage pymts.	\$1,736.02 = 38% of household gross monthly income

Affordable to a family of 2 at 115.66% of AMI
Affordable to a family of 3 at 102.66% of AMI
Affordable to a family of 4 at 92.45% of AMI

EXAMPLE #3

Bedroom size: **Three Bedroom**
Maximum Subsidy: **\$80,000.00**

Purchase price:	\$280,000.00
3% Down pymt.	<u>8,400.00</u>
To be financed:	\$271,600.00
County subsidy:	80,000.00
First mortgage:	191,600.00

Payments:

\$191,600.00 @ 6% /30 yrs P&I	\$1,148.74
Real Estate Taxes	466.66
Insurance/Maintenance	<u>350.00</u>
First Mortgage pymts.	\$1,965.40 = 38% of household gross monthly income

Affordable to a family of 4 at 104.66% of AMI
Affordable to a family of 5 at 96.98% of AMI
Affordable to a family of 6 at 90.21% of AMI

